Public Employees Group Life Insurance Fund

Annual Report for 2014

saskatchewan.ca

Government of Saskatchewan

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Letters of Transmittal

Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the twenty-first Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 2014.

Ken Krawetz
Minister of Finance

The Honourable Ken Krawetz
Minister of Finance

Sir:

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the twenty-first Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 2014.

Dave Wild
Associate Deputy Minister
Public Employees Benefits Agency
Ministry of Finance

Public Employees Group Life Insurance Fund

Introduction

The Public Employees Group Life Insurance Plan was established on April 1, 1958.

The Plan provides comprehensive life insurance coverage to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

Spouses and dependent children are also provided coverage under the Plan.

As at December 31, 2014 there were approximately 32,287 insured employees.

Participating Employers

The following employers participate in The Public Employees Group Life Insurance Plan:

Advocate of Children and Youth (Office of the)
Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The)
Cafeteria Board of Saskatchewan
Chief Electoral Officer (Office of the)
eHealth Saskatchewan
Farm Land Security Board
Financial and Consumer Affairs Authority of Saskatchewan
Global Transportation Hub Authority (The)
Information and Privacy Commissioner (Office of the)
Information Services Corporation
Innovation Saskatchewan
Kelsey Trail Regional Health Authority
Leader of the Opposition (Office of the)
Legislative Assembly Service
Liquor and Gaming Authority
Livestock Services of Saskatchewan Corporation
Meewasin Valley Authority
NDP Caucus Office
Ombudsman (Office of the)
Physician Recruitment Agency of Saskatchewan
Prairie Diagnostic Services Inc.
Prairie North Regional Health Authority
Provincial Auditor (Office of the)
Residential Tenancies (Office of)
Safe Saskatchewan Inc.
Saskatchewan Pork Development Board
Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Assessment Management Agency
Saskatchewan Centre of the Arts
Saskatchewan Crop Insurance Corporation
Saskatchewan Government Insurance
Saskatchewan Human Rights Commission
Saskatchewan Impaired Driver Treatment Centre
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Milk Marketing Board
Saskatchewan Municipal Board
Saskatchewan Party Caucus
Saskatchewan Polytechnic
Saskatchewan Power Corporation
Saskatchewan Telecommunications Holding Corporation
Saskatchewan Wildlife Assets Management Inc.
SaskBuilds Corporation
SaskEnergy Incorporated
SecurTek Monitoring Solutions Inc.
South Saskatchewan River Irrigation District No. 1
Sun Country Regional Health Authority
Technical Safety Authority of Saskatchewan
Tourism Saskatchewan
TransGas Limited
Unifor, Local 481 (Saskatchewan Government and General Employees' Union, Union Office Employees.)
Wakamow Valley Authority
Wanuskewin Heritage Park Authority
Wascana Centre Authority
Western Development Museums
Workers' Compensation Board (The)

The Board responsible for the administration of each of the following, with respect to individuals receiving benefits under each plan:

Anti-Tuberculosis League Employees Superannuation Plan
Liquor Board Superannuation Plan
Pension Plan for Employees of the Saskatchewan Workers' Compensation Board
Power Corporation Superannuation Plan (The)
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Telecommunications Pension Plan (The)

The Government of Saskatchewan with respect to the following individuals:

Advocate for Children and Youth
Assistant Chief Electoral Officer
Chief Electoral Officer
Conflict of Interest Commissioner
Director of Residential Tenancies
Individuals receiving an allowance pursuant to section 5 of *The Members of the Legislative Assembly Benefits Act*
Individuals receiving benefits under the Judges of the Provincial Court Superannuation Plan
Information and Privacy Commissioner
Judges of the Provincial Court

Legislative Assembly (Members of the)

Members of the Public Service of Saskatchewan as defined by *The Public Service Act, 1998*
Ombudsman
Provincial Auditor
Senior Justices of the Peace, appointed under Section 4 of the (*The Justices of the Peace Act, 1988)*
Supervising Justice of the Peace, appointed under section 3 of *The Justices of the Peace Act, 1988*

Administration

The Public Employees Group Life Insurance Plan is underwritten by the Great-West Life Assurance Company on a cost-plus basis and is managed by the Public Employees Benefits Agency, Ministry of Finance.

The Great-West Life Assurance Company under Group Policy 161938 (Life) provides claims adjudication and benefit payment services to the Plan.

Investment Management Services

The assets of the Group Life Insurance Fund can be invested in any class of investments authorized for the investment of moneys in the general revenue fund.

GLC Asset Management Group Ltd. invests the monies of the Fund under a contract to provide services. The Fund pays management fees to GLC Asset Management Group Ltd.

Funding

Funding for the Plan is comprised of employee and employer paid insurance premiums based on salary and the age, gender and smoker status of the employee.

Premiums/Claims Experience

	Dec. 31, 2014	Dec. 31, 2013
Premiums	$13,614,396	$13,383,950
Claims	$11,829,143	$10,535,964
# Claims		
- Employee	61	60
- Dependent	45	50
- Retirees	157	144

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As members of management of the Public Employees Group Life Insurance Fund, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian public sector accounting standards applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

The actuary has prepared a valuation report on the provision for life insurance benefits of the Fund, made in accordance with accepted actuarial practices and using assumptions adopted by management. This report has been used in the preparation of the financial statements.

We believe the Public Employees Group Life Insurance Fund has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian public sector accounting standards.

I enclose the financial statements of the Public Employees Group Life Insurance Fund for the year ended December 31, 2014 and the Provincial Auditor's report on these financial statements.

Regina, Saskatchewan
April 16, 2015

Dave Wild
Associate Deputy Minister
Public Employees Benefits Agency
Ministry of Finance

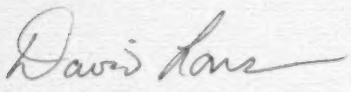
Actuarial Opinion

With respect to the *Public Employees Group Life Insurance Plan*, we have prepared an actuarial valuation as at December 31, 2014 for the purpose of determining the necessary actuarial information for financial statement reporting in accordance with Sections 3250 and 3255 of the Chartered Professional Accountants Canada (CPA Canada) Public Sector Accounting Handbook. In my opinion, for the purpose of this actuarial valuation:

- the data on which this valuation is based is sufficient and reliable;
- where applicable, the assumptions have been adopted as management's best estimates for accounting purposes and consequently I have not rendered an opinion on them; however, in my opinion, the assumptions are, in aggregate not unreasonable, when considering the circumstances of the plan and the purpose of the valuation;
- the actuarial cost methods employed are appropriate; and
- the valuation conforms with the requirements of the Sections 3250 and 3255 of the CPA Canada Public Sector Accounting Handbook.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations.

This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice in Canada.



David R. Larsen, FSA, FCIA
Aon Hewitt

February 27, 2015

Public Employees Group Life Insurance Fund

Financial Statements

Year Ended December 31, 2014

PROVINCIAL AUDITOR
of Saskatchewan

Independent Auditor's Report

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Public Employees Group Life Insurance Fund, which comprise the statement of financial position as at December 31, 2014 and the statements of operations and change in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for Treasury Board's approval and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Employees Group Life Insurance Fund as at December 31, 2014 and the results of its operations, changes in net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Judy Ferguson

Regina, Saskatchewan
April 16, 2014

Judy Ferguson, FCPA,FCA
Acting Provincial Auditor

1500 Chateau Tower - 1920 Broad Street Regina, Saskatchewan S4P 3V2
t 306.787.6398 *f* 306.787.6383 *e* info@auditor.sk.ca
www.auditor.sk.ca

Public Employees Group Life Insurance Fund **Statement 1**
Statement of Financial Position

As At December 31

	2014	2013
Financial Assets		
Cash	$ 289,979	$ 351,304
Due from Great-West Life Assurance Company (Note 4)	-	457,920
Accounts Receivable	688,158	605,357
Investments (Note 2b,3)	118,767,567	108,642,424
	119,745,704	110,057,005
Liabilities		
Accounts payable	176,753	192,195
Claims payable	1,447,078	2,281,352
Due to Great-West Life Assurance Company (Note 4)	218,727	-
Payable to Other Employers (Note 6)	4,263,782	4,394,782
Provision for Life Insurance Benefits (Note 5)	67,862,100	60,076,100
	73,968,440	66,944,429
Net Assets and Accumulated Surplus (Statement 2)	$ 45,777,264	$ 43,112,576

(See accompanying notes to the financial statements)

Public Employees Group Life Insurance Fund **Statement 2**
Statement of Operations and Change in Net Assets

Year Ended December 31

	2014		2013
	Budget (Note 10)	Actual	Actual
Revenues			
Premiums	$ 13,602,617	$ 13,614,396	$ 13,383,950
Change in Provision for Life Insurance Benefits (Note 5)	-	-	1,392,600
Investment Income	8,627,139	10,257,685	11,259,639
	22,229,756	23,872,081	26,036,189
Expenses			
Claims	11,796,695	11,829,143	10,535,964
Change in Provision for Life Insurance Benefits (Note 5)	-	7,786,000	-
Administration (Note 7)	705,484	597,087	581,913
Premium Taxes	456,079	406,751	355,664
Adjudication Fees	266,931	299,492	245,139
Investment Management Fees	273,300	288,920	259,379
	13,498,489	21,207,393	11,978,059
Operating Surplus	$ 8,731,267	2,664,688	14,058,130
Net Assets and Accumulated Surplus, Beginning of Year		43,112,576	29,054,446
Net Assets and Accumulated Surplus, End of Year (Statement 1)		$ 45,777,264	$ 43,112,576

(See accompanying notes to the financial statements)

Public Employees Group Life Insurance Fund **Statement 3**
Statement of Cash Flows

Year Ended December 31

	2014	2013
Cash Flows from Operating Activities:		
Premiums Received	$ 13,397,524	$ 13,577,019
Claims Paid	(12,663,417)	(10,401,677)
Administration Expenses Paid	(603,823)	(624,224)
Premium Taxes Paid	(408,591)	(353,139)
Investment Management Fee Paid	(287,777)	(256,368)
Adjudication Fees Paid	(299,493)	(245,139)
	(865,577)	1,696,472
Cash flows from investing activities (Note 2b, 3):		
Proceeds from Investments	127,605	-
Purchase of Investments	-	(1,827,692)
	127,605	(1,827,692)
Net decrease in cash	(737,972)	(131,220)
Cash Equivalents, Beginning of Year	809,224	940,444
Cash Equivalents, End of Year	$ 71,252	$ 809,224
Balance consists of:		
Cash	$ 289,979	$ 351,304
Due (to) from Great-West Life Assurance Company (Note 4)	(218,727)	457,920
Cash Equivalents, End of Year	$ 71,252	$ 809,224

(See accompanying notes to the financial statements)

Public Employees Group Life Insurance Fund
Notes to the Financial Statements

December 31, 2014

1. Description of Fund

The Public Employees Group Life Insurance Fund (PEGIF) is a special purpose fund used to account for transactions of the Group Life Insurance Plan (Plan). The Plan continues under subsection 64(2) of *The Financial Administration Act, 1993.*

This Plan is managed by the Public Employees Benefits Agency (PEBA) and provides comprehensive life insurance coverage to certain members of the public service of the Province of Saskatchewan and Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The Plan provides basic life insurance coverage at the commencement of employment without a medical examination. Additional coverage may be purchased with a medical examination. The coverage is renewed automatically every year. At retirement, retirement death benefit certificates having values up to $25,000 (basic death benefit certificate is $10,000) are given to employees. The cost of providing these certificates to retiring employees is included in the provision for life insurance benefits. At retirement, members can elect to continue insurance coverage. The Plan's insurance coverage does not include accumulation of cash values. The Government through the Minister of Finance entered into an agreement with Great-West Life Assurance Company (Great-West Life) to administer the Group Life Insurance Plan, effective January 1, 2009.

Claims are adjudicated and processed for payment by Great-West Life.

Employees and employers pay premiums monthly. Premiums that are paid by employers vary depending on their agreement with PEGIF. Employees pay for the remainder of their coverage at a rate of $0.22 to $0.30 per month per $1,000 coverage.

Premiums for life insurance are waived for disabled members of the Public Employees Disability Income Plan, the Saskatchewan Government Insurance Long Term Disability Plan, and the Saskatchewan Government and General Employees' Union Long Term Disability Plan. The cost of providing life insurance coverage (benefit) due to waiver of premiums is included in the provision for life insurance benefits.

During the period of agreement with Great-West Life, all death claims from a catastrophic accident over and above the two largest individual claims will not be charged to the Plan. Catastrophic accident means each and every accident or series of accidents arising out of one event or occurrence resulting in the death of three or more people insured under the Plan. The Plan pays 0.35 per cent of premium revenue to Great-West Life for this coverage. The amount expensed during the year is included in adjudication fees and the Plan had no claims for 2014 (no claims for 2013).

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian public sector accounting standards. These statements do not present a Statement of Re-measurement Gains and Losses as it is not practical to determine the unrealized portion of investment income relating to its pooled fund investments. As a result, all income attributable to its pooled fund investments is recorded in investment income on the Statement of Operations and Change in Net Assets. The following accounting policies are considered significant:

a) Premium revenue

Premiums are recognize as revenue when due.

b) Investments

The investments are held by GLC Asset Management Group Ltd (GLC) on behalf of PEGIF in an assortment of pooled funds including a: money market, bond, mortgage, Canadian equity, US equity, and non-North American equity pooled fund. All investments are valued at fair value. The fair value of short-term notes is based on cost. The cost of short-term notes plus accrued interest approximates their market value. Canadian government and corporate bonds, mortgages, Canadian and U.S. equities, and non-North American equities are valued at the closing bid price. The market values of investments in foreign currencies are translated into Canadian dollars at the closing rate of exchange on December 31, 2014. The purchase and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions.

c) Provision for life insurance benefits

Group Life policies are considered yearly termed life policies that are automatically renewed every year. Under such life policies, claims are recorded in the year of the claim. The provision for life insurance benefits represents the present value of future payments arising from benefits for disabled employees whose premiums have been waived and includes an estimated amount for claims incurred but not yet reported (IBNR). The provision also includes the present value of the retirement death benefit certificates for those employees who retired prior to year end. The provision for life insurance benefits is subject to uncertainty and is selected from a range of possible outcomes. Adjustments to the provisions for life insurance benefits are made as additional information becomes available. The provision for life insurance benefits is determined pursuant to an actuarial valuation. Any resulting change in the liability pursuant to the valuation is recognized as a revenue or expense item in the Statement of Operations and Change in Net Assets.

d) Claims expense

Claims are recognized in the year they are incurred. Claims expense includes future payments arising from life claims received during the year and an estimate of life claims received after the year end for fatalities that occurred during the year.

e) Use of Estimates

These statements are prepared in conformity with Canadian public sector accounting standards. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current operations when identified.

The primary measurement uncertainty arising from the use of estimates which may affect reported amounts relates to the valuation of the provision for life insurance benefits – see Note 5.

f) Financial instruments

Receivables and payables are measured at cost which approximates their fair value. As described in Note 2 b) the investments held by GLC on PEGIF's behalf are measured at fair value.

Changes in fair value are recognized in the Statement of Operations and Changes in Net Assets.

3. Investments

At December 31, 2014, the investments held on behalf of PEGIF by GLC in various pooled funds consist of short-term notes, Canadian government and corporate bonds, mortgages, Canadian equities, US equities, and Non-North American (NNA) equities.

GLC does not remit the investment income to PEGIF; it reinvests the income, net of management fees, in the pooled funds.

Fair Value

The Plan has classified its fair-valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's financial instruments within this fair value hierarchy:

2014

(thousands of dollars)

Pooled Funds	Level 1	Level 2	Level 3	Total
Money Market Fund		$ 7,138		$ 7,138
Bond Fund		$ 53,254		$ 53,254
Mortgage Fund		$ 15,097		$ 15,097
Equity Funds		$ 43,279		$ 43,279
Total		$118,768		$118,768

2013

(thousands of dollars)

Pooled Funds	Level 1	Level 2	Level 3	Total
Money Market Fund		$ 3,602		$ 3,602
Bond Fund		$ 47,753		$ 47,753
Mortgage Fund		$ 11,985		$ 11,985
Equity Funds		$ 45,302		$ 45,302
Total		$108,642		$108,642

4. Due from/to Great-West Life Assurance Company

According to the agreement between PEBA and Great-West Life, Great-West Life has established an account for receipt of PEGIF's premiums and payment of claims and administrative expenses. A positive balance in this account represents monies due from Great-West Life to PEGIF and a negative balance represents monies due to Great-West Life from PEGIF.

5. Provision for Life Insurance Benefits

A valuation of the provision for life insurance benefits was performed by Aon Hewitt as at December 31, 2014 to determine the liability for future costs of providing life coverage to existing disabled employees whose premiums

have been waived (waived premiums) prior to year end and the retirement death benefit certificates (retirement certificates) for those employees who retired prior to year end.

The provision for life insurance benefits as at December 31 and the principal components of the change in the provision during the year were as follows:

	2014		2013	
	Waived Premiums	Retirement Certificates	Waived Premiums	Retirement Certificates
Provision for life insurance, Beginning of year	$21,884,200	$38,191,900	$24,639,500	$36,829,200
Interest on previous liability	1,203,600	2,100,600	1,355,200	2,025,600
Mortality and termination experience (gain) loss	(79,200)	305,200	(1,173,600)	454,400
New claims	4,050,600	3,306,100	3,480,100	2,848,200
Expected benefit payments	(4,484,400)	(1,645,100)	(5,604,200)	(1,740,800)
Change in assumptions	399,900	2,628,700	(812,800)	(2,224,700)
Total provision for life insurance, end of year	$22,974,700	$44,887,400	$21,884,200	$38,191,900

The total liability as at December 31, 2014 is $67,862,100 (2013 – $60,076,100). The liability includes $44,887,400 (2013 – $38,191,900) for retirement death benefit certificates and $22,974,700 (2013 – $21,884,200) for life coverage for those disabled employees whose premiums have been waived.

The valuation is based on the following assumptions:

1) Inflation rate assumed is 2.5 per cent (2013 – 2.5 per cent) for all future years. If the actuarial valuation assumed no indexing of the level of insurance for those disabled employees, the liability at December 31, 2014 would be $65,343,400 (2013 – $57,674,800);

2) Discount rate has been determined in accordance with Sections 3250 and 3255 of the CPA Canada Public Sector Accounting Handbook. The liabilities of the plan are backed by investments whose purpose is to provide the full funding of the plan. The discount rate for the plan is determined as the expected rate of return on investments, net of investment management expenses. The discount rate has been determined as 5.00 per cent (2013- 5.5 per cent);

3) Non-investment management expenses assumption is 10 per cent (2013- 10 per cent) of total reserves, including IBNR reserves. This assumption is based on actual expenses over the past 5 years.

4) Mortality and recovery rates used in the waiver valuation for disabled lives were obtained from the *Group Life Waiver Study Based on 1988-1994 Canadian Group LTD Termination Experience*, published November 2001. The mortality rates were adjusted to 150 per cent (2013- 150 per cent) of the published rates and the recovery rates were adjusted to 160 per cent (2013- 160 per cent) of the published rates.

5) Mortality rates used for valuing retiree life coverage have been derived from the unadjusted *Canadian Life 2000-2002 tables*, as published by Statistics Canada

The liability for the cost of providing life insurance coverage to disabled employees whose premiums have been waived prior to year end and the retirement death benefit certificates for those employees who retired prior to year end are based on a number of assumptions about future events including: recovery and mortality rates and interest rates. The actual experience may vary significantly from the assumptions used.

The following illustrates the effect of changes in the interest rate and mortality on the retirement death benefit certificate liability:

- a 1 per cent decrease in the discount rate would result in a 15.0 per cent increase in the liability including the cost of living adjustment as determined by the consumer price index
- a 10 per cent increase of the Group Life Insurance mortality rate would result in a 3.0 per cent increase in the liability

The following illustrates the effect of changes in the interest rate, cost of living adjustment and mortality on group life waivers:

- a 1 per cent decrease in the discount rate would result in a 4.9 per cent increase in the liability including the cost of living adjustment as determined by the consumer price index
- a 1 per cent decrease in the cost of living adjustment would result in a 4.6 per cent decrease in the liability
- a 10 per cent increase of waiver mortality would result in a 8.4 per cent increase in the liability

The provision for life insurance benefits is long-term in nature and there is no market for settling these obligations.

6. Payable to Other Employers

Public Service Commission, Prairie North Regional Health Authority and Sun Country Regional Health Authority (in conjunction with Canadian Union of Public Employees, Local 600), SaskEnergy, SaskPower, and Saskatchewan Government Insurance (SGI) signed agreements whereby these agencies became responsible for the additional $5,000 (total of $10,000 except for SGI total of $15,000 or $25,000) paid up life insurance policy to their employees upon retirement (Retirement Death Benefit Certificates).

These agencies pay the premiums for this enhanced benefit to PEGIF and PEGIF pays the claims on behalf of the employers. The payable represents the accumulated difference between premiums collected and the claims paid. The fair value of the payable approximates its carrying value.

7. Administration Expenses

PEBA administers PEGIF for a fee.

8. Investment Performance

PEGIF's investments are represented by the amounts held by GLC (see Note 2b, 3). The following is a summary of the investment performance:

	2014	Four year annualized return
Actual (a)	9.90%	7.73%
Benchmark (b)	9.82%	7.25%

(a) The annual returns are before deducting investment expenses.

(b) The benchmark return is PEGIF's target rate of return for its investments. The benchmark return is based on the performance of PEGIF's planned investment portfolio.

The assets within the PEGIF can be invested as authorized within the PEGIF's Statement of Investment Policies and Goals (Investment Policy). GLC is under agreement to invest the monies of PEGIF in a selection of investment mandates offered by GLC consistent with the Investment Policy. PEGIF pays investment management fees to GLC for providing this service.

9. Financial Risk Management

The nature of the Plan's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an Investment Policy, which is approved annually. The Investment Policy provides guidelines to the Plan's investment manager for the asset mix of the portfolio regarding quality and quantity of fixed income and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. PEBA reviews regular compliance reports from its investment manager as to its compliance with the Investment Policy. PEBA also reviews regular compliance reports from the pooled fund custodian as to the investment manager's compliance with the Investment Policy.

Credit risk

The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2014 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of dollars)	
	2014	**2013**
	Carrying value	Carrying value
Accounts receivable	$ 688	$ 605
Due from Great-West Life Assurance Company	-	458
Investments[1]	75,489	63,340

[1]Bonds, mortgages & money market Investments held on behalf of PEGIF.

Accounts receivable are primarily made up of employee and employer contributions receivable. Employee and employer contributions receivable are generally received within 30 days.

Credit risk within investments is primarily related to the fixed income pooled funds. It is managed through the Investment Policy that limits fixed-term investments to those of high credit quality (minimum rating for bonds and mortgages, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets by $4.5 million at December 31, 2014, representing 6.5 per cent of the $68.4 million fair value of fixed income investments.

Foreign exchange

The Plan is exposed to changes in the U.S. dollar exchange through its U.S. equity pooled fund. Also, the Plan is exposed to non-North American currencies through its non-North American equity pooled fund. Exposure to both

U.S. equities and non-North American equities is limited to a maximum 18 per cent each of the market value of the total investment portfolio. At December 31, 2014, the Plan's exposure to U.S. equities was 13.5 per cent (2013 – 15.7 per cent) and its exposure to non-North American equities was 10.6 per cent (2013 – 12.6 per cent).

At December 31, 2014, a 10 per cent appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $1.6 million increase in net assets and accumulated surplus. A 10 per cent appreciation in the Canadian dollar versus the non-North American currencies would result in approximately a $1.3 million increase in net assets and accumulated surplus.

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S., and non-North American markets through its equity investments. Equities comprise 36.4 per cent (2013 – 41.7 per cent) of the carrying value of the Plan's total investments.

The following table indicates the approximate change that could be anticipated to the operating surplus and net assets and accumulated surplus based on changes in the Plan's benchmark indices at December 31, 2014:

	(Change in thousands of dollars)	
	10% increase	10% decrease
S&P/TSX Composite Index	$ 1,473	$ (1,473)
S&P 500 Index	$ 1,603	$ (1,603)
MSCI EAFE Index	$ 1,252	$ (1,252)

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable, payable to other employers, Due to Great-West Life Assurance Company and claims payable are due within one year.

The provision for life insurance benefits is long-term in nature per Note 5.

10. Budget

PEBA approved PEGIF's annual budget on January 30, 2014.

11. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to PEGIF by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties." These transactions are recorded at agreed upon exchange amounts.

Due to the nature of PEGIF, substantially all premiums are received from related parties.

At year end, the following amounts were due to/from related parties as a result of the transactions referred to above:

	2014	2013
Accounts receivable	$688,158	$605,357
Accounts payable	$143,571	$158,442

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.